

GAO

Testimony

Before the Subcommittee on Government Management,  
Information and Technology, Committee on Government  
Reform, House of Representatives

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## GAO: SUPPORTING CONGRESS FOR THE 21ST CENTURY

Statement of David M. Walker  
Comptroller General of the United States



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G A O

Accountability \* Integrity \* Reliability

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Mr. Chairman, Congressman Turner, and Members of the Subcommittee:

I am pleased to appear before you today to discuss the work of the General Accounting Office (GAO). We welcome this opportunity to highlight the important role that GAO plays to support the Congress for the benefit of the American people.

In my testimony today, I will discuss the many national and international concerns that confront our nation and the Congress, the ways in which GAO can support the Congress now and in the future, and GAO's performance in accomplishing its mission. While GAO has evolved over the years, its current mission is straightforward: GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the benefit of the American people.

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## Evolution of GAO

GAO was created in 1921 as a result of the Budget and Accounting Act, a law designed to improve government financial controls and management in the aftermath of World War I. Wartime spending had increased the national debt, escalated costs for many government purchases, and created substantial disarray in the financial operations of the War Department and other agencies. The Congress also recognized a need for better financial information and controls over costs. As a result, the new law required the President to prepare an annual budget, and it transferred from the Department of the Treasury to GAO the government's auditing, accounting, and claims functions.

During the 1920s and 1930s, GAO focused on pre-audit payment work and whether government spending had been handled legally. The bulk of GAO's work centered on the auditing of agency vouchers; GAO clerks checked vouchers and settled the accounts of executive branch disbursing officers. Departments and agencies sent their vouchers to GAO, which checked the legality, propriety, and accuracy of expenditures.

GAO's workload increased in the 1930s as federal money poured into New Deal recovery and relief efforts to combat the Great Depression during President Franklin D. Roosevelt's administration. GAO, which started out with about 1,700 employees, had a workforce that numbered nearly 5,000 by 1939. Although Washington remained the center of GAO's activities, the agency's auditors first began doing fieldwork in the mid-1930s. For one early fieldwork assignment, GAO looked at the operation of government agriculture programs in Kentucky and several southern states.

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With the U.S. entry into World War II, GAO faced enormous challenges. The agency continued to do the same type of work it had done before the war but with vastly increased volume. Defense production soared after 1941 as the nation's factories geared up to meet the demands of war. Government offices expanded, churning out mountains of expenditure forms for GAO to examine. GAO reviewed defense contracts and audited the accounts of Army and Navy disbursing officers. The war effort created a blizzard of transportation vouchers for GAO to review as the government used the nation's rails and roads to carry freight and troops. GAO hired additional audit clerks and freight examiners, nearly tripling the size of the agency to nearly 15,000 by 1946. The paperwork was so intense that GAO faced a backlog of 35 million unaudited vouchers in 1945 and had to spend several years catching up on work. Overall, GAO handled a staggering backlog of paperwork as a result of the war: in 1947, GAO reconciled 490 million checks and audited 92,000 accountable officers' accounts, 5 million transportation vouchers, 1.5 million contracts, and 260 million postal money orders.

GAO's wartime experiences spelled the end of the voucher-checking era. The increase in paperwork showed how difficult it was for a single agency to keep up with examining every government disbursement. The war also highlighted a number of accountability issues. In the 1940s, then Comptroller General Warren repeatedly pointed to the lack of accountability of government corporations and problems with contract fraud. Warren applauded the passage in 1945 of the Government Corporation Control Act, which authorized the auditing of wholly owned government corporations and mixed ownership corporations. Responding to the requirements of the act, Warren created a Corporation Audits Division in 1945. He began hiring accountants to perform annual audits of government corporations.

With passage of the Budget and Accounting Procedures Act of 1950, GAO as a whole shifted to comprehensive auditing of government agencies. Instead of concentrating on individual fiscal transactions, GAO began reviewing financial management and internal controls at government agencies. Responsibility for checking vouchers shifted to the various executive agencies, as GAO focused on prescribing accounting principles, performing audits on agency sites, and checking financial controls and procedures.

The move to comprehensive auditing represented a major turning point for GAO. At the same time, GAO returned to its pre-war size. The agency reduced the number of voucher clerks in its employ and began hiring

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accountants. Indeed, the modern GAO began to emerge in the 1950s and 1960s.

GAO responded to its new mission by recruiting and training a broader array of staff, and working to set standards that professionalized the workforce. To keep a watchful eye on spending at home and abroad, GAO formally established a network of field offices throughout the United States in the early 1950s and opened a European office in 1952. The scope of GAO's work expanded again during the 1960s as President Johnson initiated the Great Society's War on Poverty. The number of federal grants-in-aid rose sharply and the rapid growth in federally assisted programs placed enormous administrative control burdens on government at all levels.

Let me note at this point that all the Comptrollers General made substantial contributions to GAO, and I am particularly pleased to be here with my immediate predecessors, Elmer Staats and Charles Bowsher—both made enormous contributions to the agency. First came Comptroller General Staats, who took office in 1966, and was a driving force behind GAO's emphasis on program evaluation and making the agency's work more useful to the Congress.

The growth in congressionally based work, combined with the expansion of government programs, was responsible for a significant change in the makeup of GAO's employees. GAO's staff, mostly accountants, began to change to fit these new assignments. In the 1970s, GAO started recruiting social scientists, computer professionals, and experts in such fields as health care, science, public policy, and information management. In 1980, most of the agency's auditors and management analysts were reclassified as evaluators to reflect GAO's varied work. During Staats' tenure, GAO relied on new technological tools as well as employees with diverse academic degrees. In the 1970s and 1980s, the agency made increasing use of computers in its audit and administrative operations.

Staats was also a leader in recognizing the importance of international interaction in the accountability field. He made major contributions to the development of the International Organization of Supreme Audit Institutions (INTOSAI), which includes 179 countries, and he also created an international fellows program at GAO to provide support, training, and guidance to a cadre of key individuals from accountability organizations worldwide. Eighty-nine countries have participated in the International Auditor Fellowship Program and 279 individuals have graduated from the program since 1979. Indeed, 12 former fellows have since become the

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Auditors General in their countries, and many more have served as Deputies or in other high-level posts.

Comptroller General Bowsher also made major contributions to GAO and to the improvement of financial management and government operations. Bowsher continued the emphasis on personnel improvement, strengthening the recruitment of people with diverse professional backgrounds and providing them with improved tools and work incentives. He expanded GAO's training curriculum and strengthened the Training Institute.

Bowsher also helped to lead the government's growing emphasis on management reform and performance and accountability issues. During his tenure, Bowsher paid close attention to budget issues, warned about the dangers of the increasing deficit, and worked to improve federal financial management. In part due to GAO's work and leadership, the Congress passed a series of laws designed to improve the management and performance of government, including:

- the Chief Financial Officers Act—which created CFOs in all major agencies;
- the Government Performance and Results Act—which created a requirement for measuring and reporting on agencies' performance;
- the Paperwork Reduction Act of 1995—which streamlined government paperwork and reporting requirements;
- the Government Management Reform Act—which requires the government to prepare an annual consolidated financial statement audited by GAO;
- the Federal Acquisition Streamlining Act—which is helping to make government acquisition more efficient and effective; and
- the Single Audit Act.

During Bowsher's tenure, GAO first began doing general management reviews, which looked at broad organizational and management issues at government agencies. GAO also initiated a series of high-risk reports, now issued every 2 years, to provide information on federal activities susceptible to waste, fraud, abuse, and mismanagement.

When I became Comptroller General in November 1998, I committed GAO to helping the Congress address issues that will define the 21st century.

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Today, GAO conducts a wide range of financial and performance audits and program evaluations and reviews the business and mission of government. GAO's work covers everything from the challenges of an aging population and the demands of the information age to emerging national security threats and the complexities of globalization. GAO is also committed to management reform—to helping government agencies become organizations that are results-oriented and accountable to the public.

Ultimately, we may find that GAO needs a new name—the words “general accounting office” do not really capture our more complex role anymore. It might be more appropriate to consider something closer to “government accountability office.” It more clearly conveys our role and the expectations of our clients in the Congress, the press, and the public. It might also help us in our recruiting efforts in the increasingly competitive marketplace.

GAO's core values of accountability, integrity, and reliability reflect its dedication to good government and professional standards. Accountability describes the nature of GAO's work in helping Congress oversee federal programs and operations to ensure effective and efficient government for the American people. The agency's work reflects integrity because it is professional, objective, fact-based, nonpartisan, nonideological, fair and balanced. GAO strives also for reliability by providing high-quality information that is timely, accurate, useful, clear, and candid.

GAO relies on a workforce of highly trained professionals who hold degrees in many academic disciplines, such as accounting, law, engineering, public and business administration, economics, and the social and physical sciences. I am extremely proud of GAO's workforce, of its dedication and excellence, and of its service to the betterment of government and the country. One of my principal goals for GAO is that we not only work to improve government, but that we also work to improve ourselves. I look for GAO to become a model organization in the federal government and I am convinced that, because of our employees, we will achieve that goal.

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## GAO's Accomplishments

Mr. Chairman, I am also proud of GAO's accomplishments in supporting the Congress and helping improve the performance and accountability of government for the benefit of the American people.

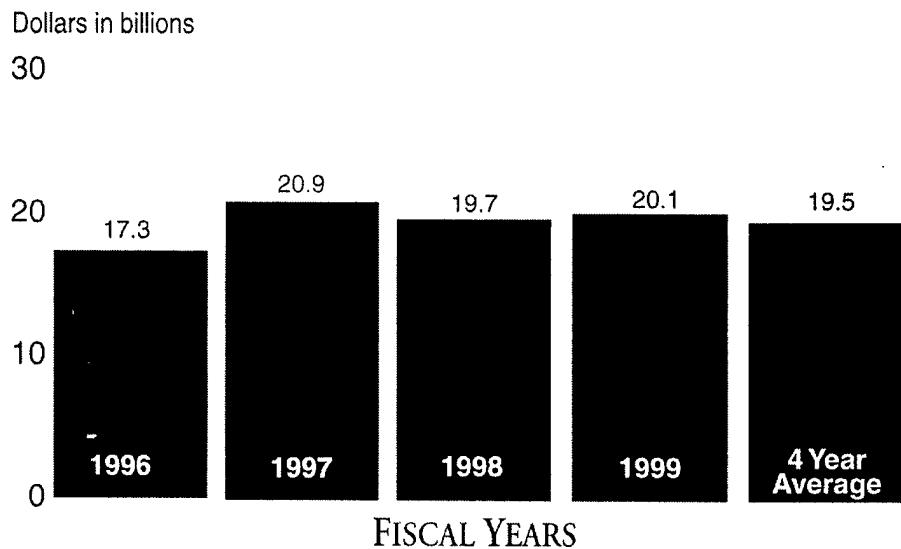
During fiscal year 1999, GAO made substantial contributions to help the Congress and the executive branch agencies improve government programs and services. It provided more than \$20 billion in direct financial

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benefits, recommended over 600 actions that have led to improvements in government operations, and provided 229 testimonies requested by congressional committees. While many of GAO's contributions cannot be quantified in dollar terms, those that can be quantified show that GAO returned over \$57 for every \$1 appropriated to the agency in fiscal year 1999.

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**Figure 1: Financial Benefits**



GAO succeeds in its mission when its findings and recommendations lead to improvements wherever federal dollars are spent. The following examples illustrate some of the financial benefits that GAO has helped the Congress and the executive branch achieve:

- To help the government better realize the value of its assets, GAO suggested ways the Congress and the Department of Energy (DOE) could increase the profitability of oil sold from the federally owned Naval Petroleum Reserve at Elk Hills, California. GAO testified before the Congress that the government would see a greater return from the sale of Elk Hills than from retaining ownership. GAO's suggestions for changes to the sale process were adopted by DOE, resulting in proceeds of over \$1.5 billion above the original sale price.

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- GAO has helped agencies to achieve greater savings from more efficient operations. The Congress recently enacted legislation based in part on GAO's recommendations to strengthen Medicare's safeguards against fraud and abuse. These improvements saved the Medicare program approximately \$2.2 billion over fiscal years 1998 and 1999. Similarly, GAO recommendations included in Medicare program legislation will produce a gradual reduction, through fiscal year 2001, in the overly generous "adjustment factor" designed to compensate teaching hospitals for higher Medicare costs. This legislative change is estimated to produce \$1.5 billion in savings for the program in fiscal years 1999 and 2000.
  - GAO has made recommendations to streamline the tax system and help support the Congress in its long-term fiscal decisions. Based on GAO's evaluations, for instance, the Congress changed the tax laws pertaining to the Earned Income Tax Credit. Specifically, the government avoided an estimated \$1.3 billion in payments for the 5-year period ending in fiscal year 2000 through changes to the wealth, capital gains, and passive income tests for the Earned Income Tax Credit eligibility criteria. Similarly, as part of the Small Business Job Protection Act, the Congress phased out tax credits to corporations for certain income earned in Puerto Rico and U.S. possessions. GAO's work on this issue contributed to an estimated \$1.3 billion in financial benefits for fiscal years 1996 through 2000.
  - GAO also helped the Congress and agencies identify and reduce unnecessary spending. As part of its ongoing work in housing issues, GAO has provided assistance to improve the accuracy of the Department of Housing and Urban Development's (HUD) budget and resource estimates. GAO reported that HUD's method for estimating funding for its Section 8 housing assistance resulted in requests that exceeded the agency's needs. The Congress directed HUD to submit revised estimates, after which HUD's fiscal year 1998 budget was reduced by about \$1.3 billion in light of the streamlined projections. As a result, the Congress also rescinded \$2.4 billion from HUD's fiscal year 1998 supplemental request. GAO's recommendations helped HUD avoid additional costs of about \$1.1 billion in fiscal year 1999. Based in part on these examples, GAO audits and recommendations helped the Department save an estimated \$5.3 billion in fiscal years 1998 and 1999.
  - Similarly, as part of its assistance to the Congress in reviewing the fiscal year 1999 Department of Defense (DOD) budget request for military personnel, GAO identified areas where the budget could be reduced. These included excess manpower costs due to over estimated military personnel levels, unnecessary advance pay, and funds not needed due to gains from changes in foreign currency exchange rates. As a result of

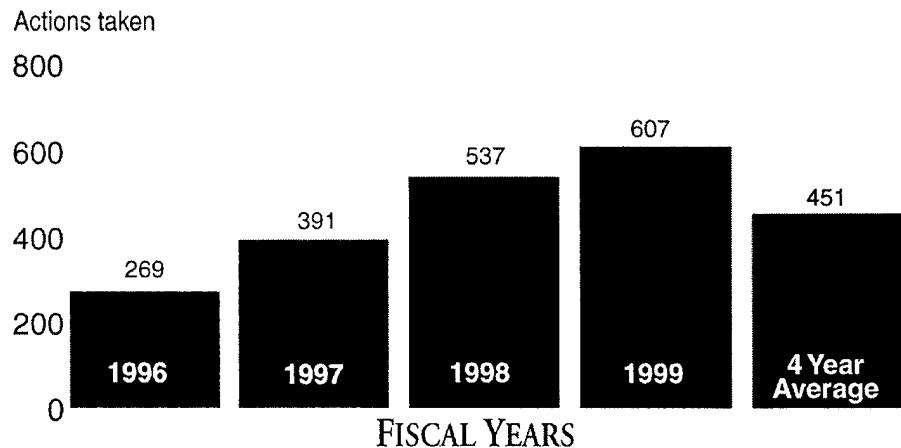
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GAO's work, the Congress reduced the fiscal year 1999 military personnel budget for active and reserve forces by about \$609 million without compromising overall readiness.

In addition to the financial benefits resulting from GAO's work, the agency's efforts also contribute to numerous qualitative improvements in government operations and services. During fiscal year 1999, GAO contributed to 607 such benefits achieved by the government, a 13-percent increase over fiscal year 1998. Benefits resulting from GAO's recommendations included better public safety and consumer protection, more efficient and effective government operations and services, help in ensuring Year 2000 readiness, and improvements to computer security.

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**Figure 2: Improved Government Operations Resulting From GAO Recommendations**



Some examples of GAO's contributions to improved government operations follow:

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**Public Health and Safety**

- GAO has assisted the Congress and the agencies in efforts to improve public health. For example, since 1998 GAO has issued a series of reports on Medicaid highlighting widespread inadequate health care quality in some of the nation's nursing homes. As part of its evaluation, GAO made a series of recommendations to the Health Care Financing Administration (HCFA) for improvements to its nursing home survey process and for stronger enforcement in instances when nursing homes repeatedly violate regulations and do not correct deficiencies. As a result, HCFA developed a

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set of initiatives designed to improve patient care and eliminate deficiencies. Based on GAO's work, HCFA now requires states to investigate serious complaints alleging harm to residents within 10 days, has proposed an expansion of its enforcement programs by subjecting homes with repeated serious deficiencies to immediate sanctions, and has revised the protocols that state surveyors use to inspect nursing homes to better focus the reviews.

GAO's reports have also convinced some states to improve their oversight of nursing homes. In response to GAO's finding that serious complaints of poor nursing home care frequently are not investigated for months, Maryland's legislature approved funding for a 57 percent increase in its surveyor staff, and the state agency revamped its processes to emphasize a faster review of serious complaints.

- GAO has also made significant contributions to improving criminal justice. For instance, GAO has reported on the prevalence and costs of identity fraud involving the illegal use of another person's identifying information (such as name, date of birth, or Social Security number) to commit financial crimes. Illegal activities range from the unauthorized use of a credit card to a comprehensive takeover of financial accounts. Largely in response to GAO's work, the Congress enacted legislation that criminalized the theft and misuse of personal identifying information and provided legal recognition for the victims of fraud.
- Transportation safety is another important area in which GAO has helped to improve government operations and the public's quality of life. In one instance, GAO reported that the Federal Railroad Administration (FRA) had few regulations involving passenger car safety for Amtrak or commuter rail operations. As a result, inspectors provided little oversight of passenger car safety. GAO recommended that the agency establish appropriate criteria for the condition of safety control components on passenger cars. Addressing GAO's recommendation, FRA established comprehensive structural safety standards for passenger equipment and created more stringent safety standards for high-speed passenger rail service.

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#### More Efficient Government

- Many of the government's large entitlement programs are susceptible to fraud, waste, and mismanagement. One example of GAO's contribution to improving government performance and preventing fraud and waste is in the Supplemental Security Income (SSI) program—the nation's largest cash assistance program for the poor. GAO reported that the program's financial integrity was ineffective because the program has overpaid

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beneficiaries by more than \$3.3 billion. The magnitude of overpayments, and the Social Security Administration's (SSA) inability to recover outstanding SSI debt, led to the program's inclusion on GAO's high-risk list. Based on GAO's work, SSA is expanding its use of online data to better verify financial information about recipients and prevent future overpayments. SSA is also seeking statutory authority for additional tools to recover current overpayments.

- GAO has played an important role in helping the Congress and the agencies improve the government's computer security and make more effective use of technology in the delivery of federal services. The Congress has been extremely concerned about the government's ability to prevent intruders from accessing government's extensive computer and information systems. As a result, over the past several years, GAO has issued more than 80 reports on data and systems security including hundreds of recommendations for correcting both individual weaknesses and the systemic causes of security problems. GAO's work has led to improvements in many agencies, including the development of entitywide security management practices. It has also led to computer security and other information technology-related legislation.

In addition to its reviews of individual agencies, GAO has developed techniques and practices that can be applied across the government. This work has made significant contributions to agencies' abilities to develop and implement sound security policies. The information security management practices identified in GAO's executive guides have been incorporated into policy guidance at many federal agencies. Additionally, GAO's *Federal Information System Controls Audit Manual* is now used by most major federal audit entities to evaluate computer-related controls.

In discussing GAO's contributions and accomplishments, it is important that we engage in a select amount of research and development work to ensure that GAO can meet the institutional needs of the Congress over the long term. This investment has made major contributions to the performance, stability, and accountability of the government and the protection of tax dollars. As I will discuss later in this testimony, GAO's flexibility to engage in this important component of our work has been increasingly constrained by other demands on our resources.

Among the most important work that GAO has done are reviews related to the Year 2000 (Y2K) computing challenge. GAO's work on Y2K began through its research and development program, but the vital importance of this issue has manifested itself in many congressional requests for work that the agency received in fiscal years 1998 and 1999. In early 1997, GAO

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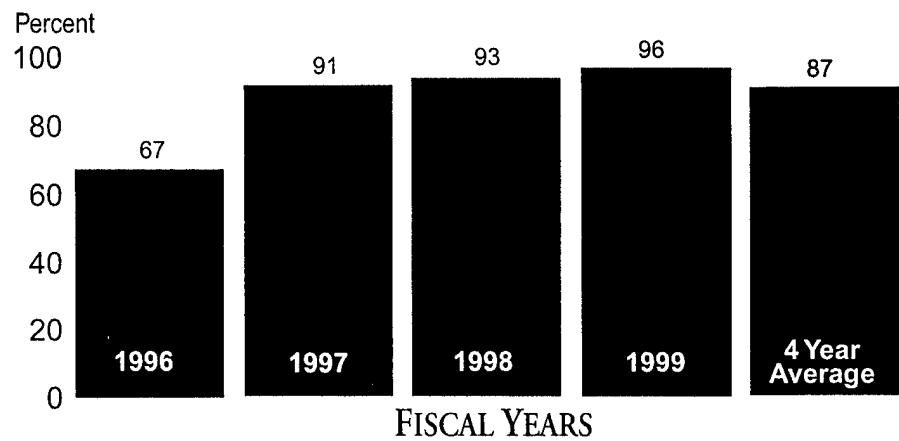
designated Y2K as a high-risk area to highlight the government's exposure. Throughout 1997, 1998, and 1999, GAO worked closely with the Congress on Y2K issues—including this subcommittee. The Senate created the Special Committee on Year 2000 Technology Problem and the House called on this Subcommittee and the Subcommittee on Technology of the Committee on Science to lead its Y2K monitoring. With leadership from you, Mr. Chairman, and your colleagues, congressional committees examined the implications of Y2K on various government operations and in key economic sectors.

GAO produced a set of four guides to help organizations confront the problem. GAO also issued over 160 reports detailing specific findings and made over 100 recommendations to agencies and to the President's Council on Year 2000 Conversion for improving the government's readiness. For example, GAO recommended that the President's Council on Year 2000 Conversion require agencies to develop contingency plans for all critical core business processes. Accordingly, the Office of Management and Budget clarified its contingency plan instructions and, along with the Chief Information Officers Council, adopted GAO's business continuity and contingency planning guide for federal use, thus reducing the risks of disruption to major programs and services.

Finally, let me note that GAO is proud of its record in providing timely service to the Congress. As figure 3 indicates, GAO has consistently improved its ability to promptly meet congressional requests. In 1999, GAO provided the Congress 96 percent of its products on time.

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**Figure 3: Product Timeliness**

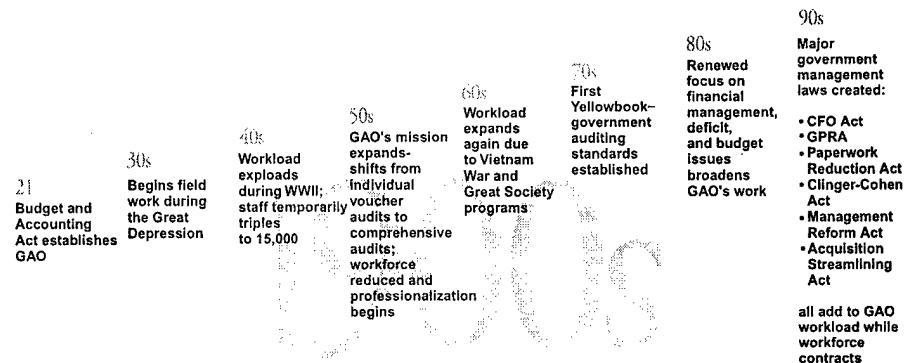


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## Complex Issues and Governance Challenges

Mr. Chairman, as I am sure you appreciate, the issues confronting the Congress and the American people have grown more complex in recent years. The pace of change has accelerated for government and for the country as a whole. The increasing challenges facing the country over the long term have had a long-lasting impact on the nature of GAO as an organization and on how it supports the Congress. Where, in the early years of GAO's existence, changes to its roles and responsibilities and to the demands placed on it occurred more slowly, there is no question that the environmental changes affecting its mission in recent years have been more persistent and have occurred more rapidly. In fact, the timeline of major events in GAO's existence (see figure 4) reveals the increasing development, complexity and influence of difficult public policy issues related to government activity and our accountability mission:

**Figure 4: GAO History: 1921 to the Present**



Likewise, it comes as no surprise that as a result of the increasing complexity and breadth of issues facing the Congress, the legislature is availing itself of GAO's services and support on an unprecedented and accelerating basis. While 70 percent of GAO's work was done as a result of congressional requests in 1996, it was 95 percent in 1999. Overall, congressional requests for GAO work have increased from 10 percent in 1966, at the start of the Staats era, to 95 percent, at the beginning of my term. Part of the reason for the Congress's increased reliance on GAO in recent years is the result of our ability to add unique value to the products and service we provide. With the advent of agency inspectors general and other similar organizations, GAO is no longer the only federal entity charged with improving the accountability of government. Nevertheless, GAO is the only agency that can consistently provide the Congress and the executive branch with analysis, options, and recommendations that are long range, broad, in coverage, and integrated in the development and presentation of critical information. GAO's efforts are multilateral and cognizant of the international implications of issues ranging from security to the environment. And they also reflect the nuances of American federalism, ensuring that implications of service delivery and devolution on state and local governments and on the private and nonprofit sectors are factored into all of its work. In the end, there is no question that effective stewardship must consider how increasingly diverse approaches to public sector responsibilities are leading to diffuse accountability.

I am convinced that GAO is now entering another significant era that will take its place on the timeline of the agency's historic key events. GAO has worked hard to make the transition from an accounting and pre-audit environment to become a diversified, multidisciplinary accountability and

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professional services organization. As I have discussed, my predecessors did a tremendous amount to ensure that GAO had the capacity and capabilities to serve the Congress and prepare for the future during their tenure. And I, at the start of the 21<sup>st</sup> century, have begun to do the same thing.

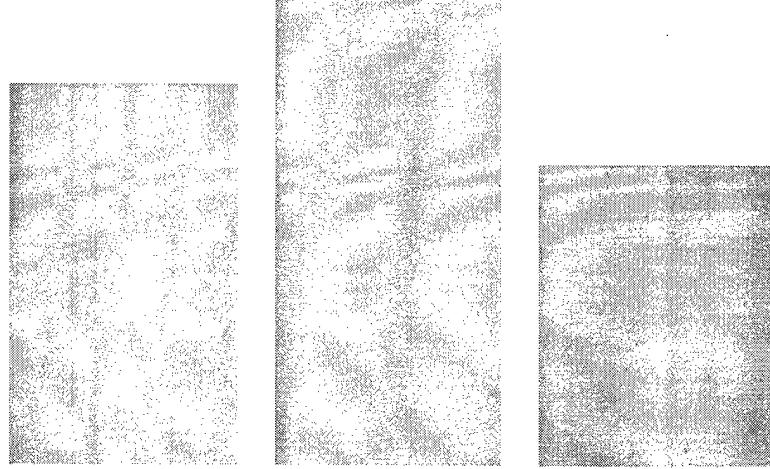
Clearly, much has already changed as GAO has grappled with this critical transition. As the following graphs show, GAO has over the years seen considerable changes in its staffing and budget allocations—levels that, unfortunately, did not generally reflect its workload and the growing demands placed on it by the Congress. Reductions in its resource levels, combined with increases and shifts in its workload have in recent years prompted GAO to take strong measures to more efficiently accomplish its mission. For example, GAO has taken significant steps to consolidate its field office structure. GAO has been able to close field offices both in the United States and overseas—much of it through attrition—and achieve gains in productivity and collaborative work environments. At the same time, GAO's flexibility has been reduced by extensive changes to the mix of its products—as mentioned, virtually all of its work is done at the request of the Congress, and an increasing amount of that stems from mandates.

The following charts highlights the changes I am discussing:

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**Figure 5: GAO Staff Levels**

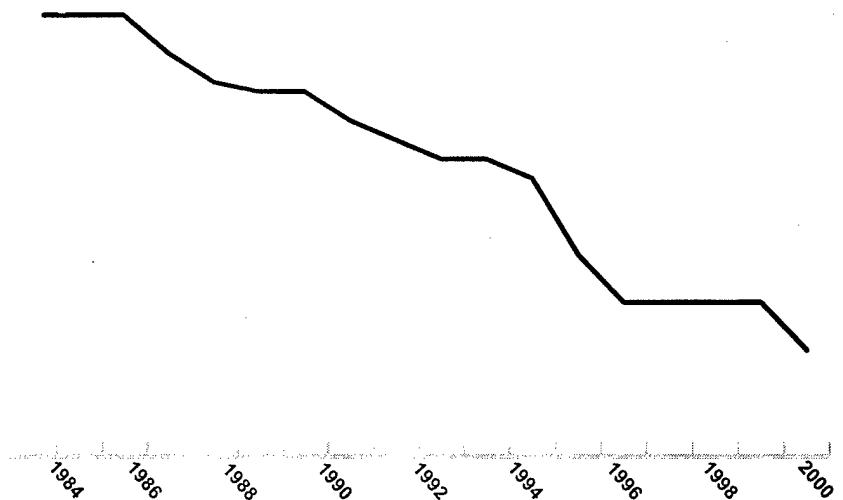


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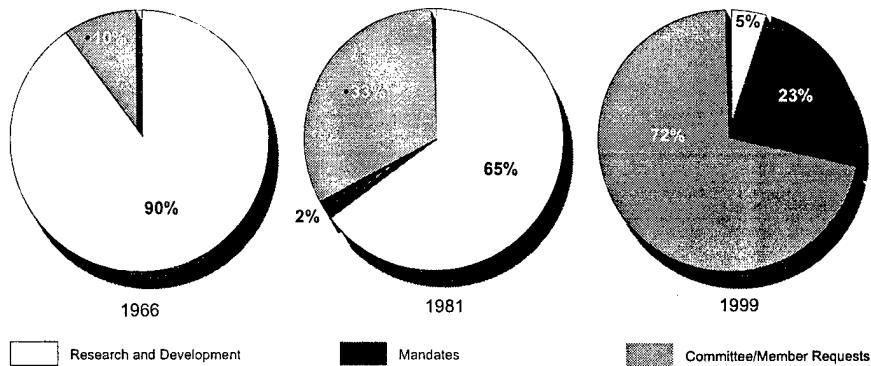
**Figure 6: History of Field Office Structure**

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**Figure 7: Work Conducted for the Congress**



In a nutshell, GAO currently stands at an important crossroads in its history and in its ability to provide the unique support the Congress and the American people expect from it. Many of the activities GAO has undertaken are designed to ensure that the agency is properly positioned to fully support the Congress as it faces the future.

Since I became Comptroller General, one of the most important activities in which GAO has been engaged is the development of its first strategic plan for the 21<sup>st</sup> century. This document is a blueprint for how GAO will support the Congress as it continues to face complex issues and challenges. Building on global changes that are impacting society on a variety of levels, GAO's strategic plan develops a comprehensive and focused structure of long-term goals and objectives to support the Congress in its legislative, oversight, and investigative roles. GAO worked closely with legislative and committee leadership, individual members, and staff in the development of this strategic plan. Thus, this plan not only incorporates congressional views about what it believes to be important and emerging issues, it also establishes a framework for seeing fundamental constitutional responsibilities in the context of current challenges and emerging changes in the coming years.

GAO has developed a set of strategic goals and objectives that will help to support the Congress in its decision-making and improve the performance and accountability of the executive branch. GAO's plan presents four strategic goals that will help the Congress perform its constitutional responsibilities and ensure GAO's ability to continue providing effective, quality support to its clients.

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The due diligence that GAO has expended to develop its strategic plan in concert with the Congress has identified a number of complex issues that are not easily solved. These issues are reflected in the goals and objectives of the plan and will serve as the guide for GAO's work priorities in the coming years. Many of these issues will take years to resolve satisfactorily, but by focusing on these issues now, the Congress will be much better positioned to meet its responsibilities for governing as it begins to confront these current and emerging challenges.

There is no question that the cold war has ended, and we won. In addition, after nearly 30 years of budget deficits, the combination of hard choices and remarkable economic growth has led to budget surpluses. As a result, we transition into this new century with different security concerns and an improved financial position relatively free of the deficit constraints of the recent past. In order to prepare effectively for the future, however, we must fully explore the major dynamic that will shape the United States and its place in the world and adequately prepare the federal government to meet the challenges that lie ahead. This subcommittee is uniquely positioned to consider these broad-based and crosscutting challenges and what needs to be done to address them.

Three of GAO's strategic plan goals focus on how GAO can help support the Congress in dealing with many complex issues and the challenges of government. These goals, the strategic objectives, and the major thematic issues that influence them are as follows:

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**Provide Timely, Quality Service to the Congress and the Federal Government to Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People**

GAO's first strategic goal focuses on several of the aspirations of the American people defined by the Founders: "*to establish justice, insure domestic tranquility...promote the general welfare, and secure the blessing of liberty to ourselves and our posterity...*" The country's aging and increasingly diverse population, rapid technological change, and Americans' desire to improve the quality of life all have major policy and budgetary implications for the federal government. In particular, growing commitments to the elderly will make it difficult for a smaller generation of workers to finance competing claims on the nation's future.

To support the Congress in its decision-making in this area, GAO will focus significant resources on the following important strategic objectives:

- researching possible options to meet the health care needs of an aging and diverse population;
- examining ways to ensure a secure retirement for older Americans;

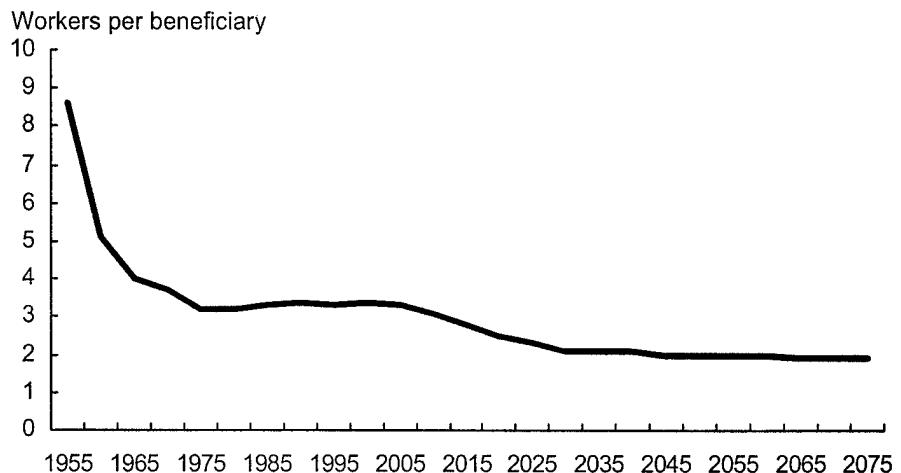
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- reviewing the social safety net for Americans in need;
  - supporting efforts to provide for an educated citizenry and a productive workforce;
  - helping the Congress strengthen a system of justice that is effective in controlling crime, illegal drug use, and illegal immigration;
  - providing analysis and other support concerning the effectiveness of investments in communities and economic development;
  - researching ways to increase responsible stewardship of natural resources and the environment; and
  - helping the Congress maintain a safe and efficient national physical infrastructure.

One of the important issues that reflect this goal and its objectives is **Demographics**. The profound changes forecast in the age and composition of our population will have enormous consequences for the retirement and health care entitlement programs as well as programs supporting the workforce.

The population is growing older. By 2030, about one fifth of the U.S. population is projected to be over age 65, compared with about 13 percent in 1998. Also by 2030, Medicare beneficiaries, who include the disabled as well as the elderly, are expected to account for 20 percent of the population. The result will be that fewer workers will be paying into Social Security for every person receiving benefits. As shown in figure 8, in 1955, almost 9 persons were paying into Social Security for every person receiving benefits. Today, the ratio is down to 3.4 to 1, and, by 2030, it is projected to be about 2 to 1.

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**Figure 8: Social Security Workers per Beneficiary**



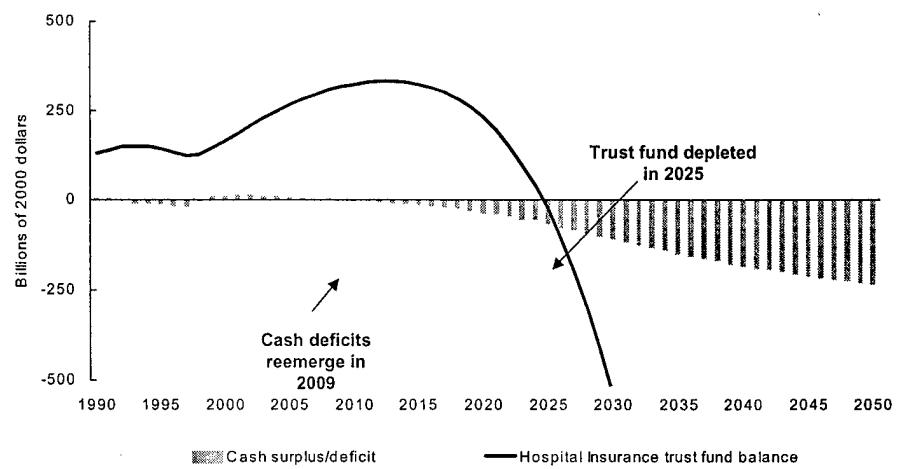
Note: Projections based on intermediate assumptions of The 2000 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

Source: Office of the Actuary, Social Security Administration.

These trends will have enormous financial repercussions for the solvency and sustainability of federal entitlement programs. The Medicare Hospital Trust Fund has operated in the red since 1992 and is projected to face insolvency in 2025. Social Security expenditures are expected to exceed payroll tax revenues beginning in 2015, with trust funds being depleted by 2037.

But crafting a solution to financing these entitlement programs involves more than the traditional approach of closing the gap between projected expenditures and revenues over a fixed time period, such as 75 years. Rather, any financing solution needs to achieve *sustainable* solvency that balances projected expenditures and revenues without requiring us to frequently revisit the financing of these programs.

**Figure 9: Medicare's Hospital Insurance Trust Fund Faces Insolvency in 2025**



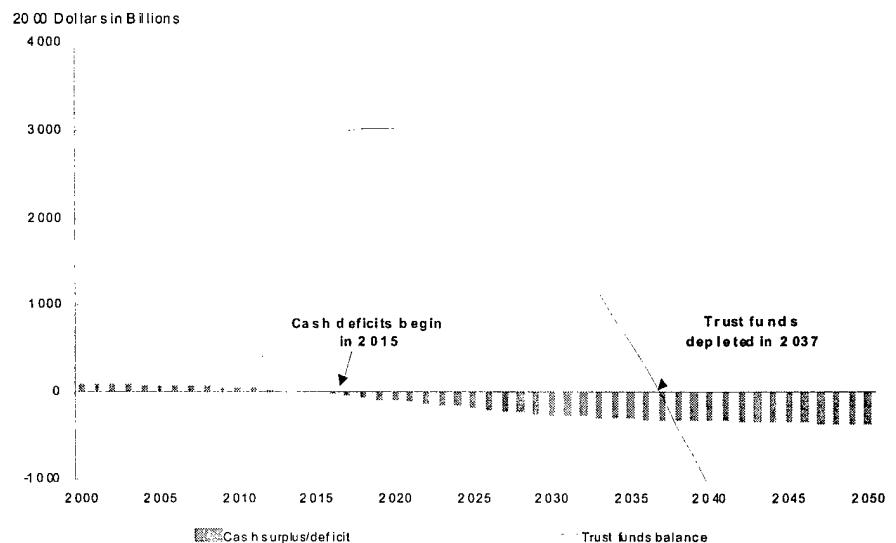
Note: Projections based on intermediate assumptions of The 2000 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund.

Source: GAO analysis of data from the Office Management and Budget and the Office of the Actuary, Health Care Financing Administration.

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**Figure 10: Social Security Finances**



Note: Projections based on intermediate assumptions of *The 2000 Annual Report of the Federal Old-Age and Survivors Insurance and Disability Trust Funds*.

Source: GAO analysis of data from the Office of the Chief Actuary, Social Security Administration.

The population is also becoming more diverse. Women and minorities as a proportion of the workforce have grown significantly. This trend, along with the increased use of part-time and other flexible work arrangements, has implications for federal policies and programs related to education, training, childcare, immigration, and retirement, and other areas. Although the increased presence of women and minorities caused substantial growth in the U.S. labor force in recent decades, this trend seems to be changing. Projections for the future are that the annual growth in the labor force will be only about 1 percent in the short term and that this growth rate may even decline over the long term. These trends further exacerbate the current tight labor market for specialized skills and key sections of the economy, suggesting the need for more policies designed to encourage people to retreat gradually from work rather than plunge into retirement.

Another major concern is **Quality of life**. It has improved for many but not for all Americans. At the same time, prosperity is placing greater stresses on the quality of life.

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The long period of strong economic performance has been accompanied by economic prosperity. People are typically living longer, with average life expectancy rising to age 76 over the past 20 years, while unemployment has fallen to low levels, and violent crimes have dropped by 20 percent since 1990. The quality of the physical environment has also improved, as levels of major air and water pollutants have dropped since 1970.

However, many challenges remain. For example, the disparities between the net worth of those without a high school education and those with more education increased between 1989 and 1998. While unemployment has reached record or near-record lows for African-Americans and Hispanics, unemployment rates for these two groups still stand at nearly twice the rate for whites, and more than 40 million Americans lack health insurance. Given the large federal role in health care delivery and financing, there is a need to weigh the needs of Americans against their wants and the overall affordability of health care considered by policymakers.

At the same time prosperity is placing greater stresses on quality of life. Greater economic activity, for example, increases air and highway traffic and heightens concerns about congestion, safety, and environmental quality. The shift to a more technologically based economy raises long term concerns about education, while population growth and geographic shifts, such as urban sprawl, place greater strains on transportation and other infrastructure. Over the coming years, these demands for new investment will increasingly come into competition with other national priorities, creating difficult choices for the federal government.

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### **Provide Timely, Quality Service to the Congress and the Federal Government to Respond to Changing Threats to National Security and the Challenges of Global Interdependence**

As the world grows more interconnected through open markets and technology, the United States faces threats to its national security and economy from new sources. Simultaneously, the federal government is trying to promote foreign policy goals, sound trade policies, and other strategies to help nations around the world that the United States now depends on as military allies and trading partners. GAO expects to continue its role in supporting efforts by the Congress and the executive branch to assess and respond to changing threats to national security and the challenges of global interdependence.

To support the Congress in its decision-making in this area, GAO will focus significant resources on the following important strategic objectives:

- helping the Congress respond to diffuse threats to national and global security,

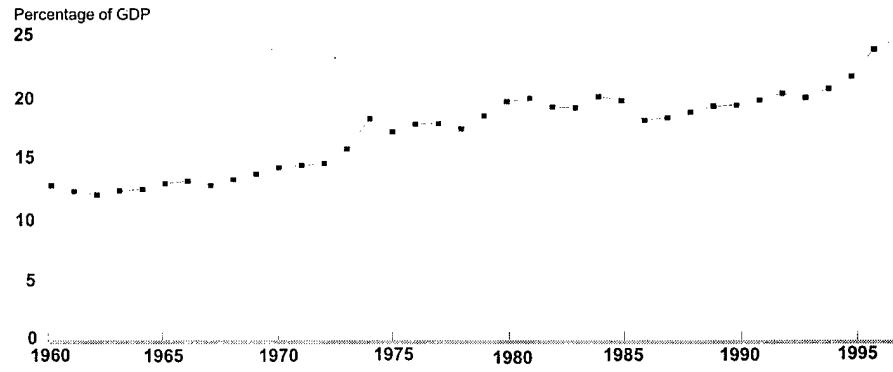
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- providing analysis and other support to ensure military capabilities and readiness,
  - supporting efforts to advance and protect U.S. international interests, and
  - reviewing ways to recognize and respond to the impact of global market forces on U.S. economic and security interests.

Several of the important themes influencing this goal and its objectives include globalization and national security. **Globalization**, or the interdependence of enterprises, economies, and governments, presents new opportunities for U.S. producers and consumers, but also new challenges for the country.

With rapid advances in technology and the ease with which people, enterprises, and goods can cross borders, the economies and activities of nations have become increasingly interdependent. From 1960 through 1997, world exports increased from about 12 percent to about 24 percent of world GDP (gross domestic product). Multinational enterprises are an important part of the trend towards globalization. In 1997, 63 percent of U.S. exports and 40 percent of U.S. imports were associated with U.S. parent corporations or their foreign affiliates.

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**Figure 11: World Exports as Percentage of GDP**



Source: World Bank.

The United States has been a principal architect of an open world trading system and has benefited greatly. However, open trade has increased the complexities of maintaining the U.S. economy. Interdependence of the U.S. and foreign economies is illustrated by foreign investment in U.S.

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business, which has increased to over \$200 billion in 1998, an amount nearly three times that invested the year before.

As the U.S. economy becomes increasingly linked with the global economy, international trade is growing in importance as a foreign policy issue. At the same time, significant national security issues also need to be considered. The effectiveness of regional and global trade arrangements in achieving their desired outcomes is being questioned at home and abroad. Critics have expressed concern that the United States has not been sufficiently aggressive in monitoring and enforcing over 300 international trade agreements that cover hundreds of billions of dollars in trade and affect millions of U.S. jobs, and that some decisions by the World Trade Organization could compromise U.S. sovereignty.

Recent financial crises in developing nations highlight the implications of the interdependence of economies and financial systems. For example, the emergence of financial difficulties in Thailand in 1997 was followed by financial crises in Indonesia and Korea, and eventually Russia and Brazil. Fear that these crises could severely affect U.S. economic and security interests have (1) focused attention on the interdependence of U.S. and global economies and (2) raised questions about what can be done to prevent or contain the spread of such crises. The International Monetary Fund is a key organization that the United States cooperates with to maintain global economic stability. Prompted by financial crises and government corruption in some countries, questions have been raised regarding their effectiveness and roles in maintaining the health of the global finance and trade systems and resolving countries' financial crises.

Economic and financial interdependence are not the only global trends with implications for this country. Increased globalization of information technology has resulted in significant new security and privacy threats to our nation's information network. Similarly, the spread of diseases around the world, like AIDS, and the global nature of environmental problems affect us and also call for a coordinated international response. Thus, in the future, federal responses to problems will increasingly have to consider international as well as national dimensions.

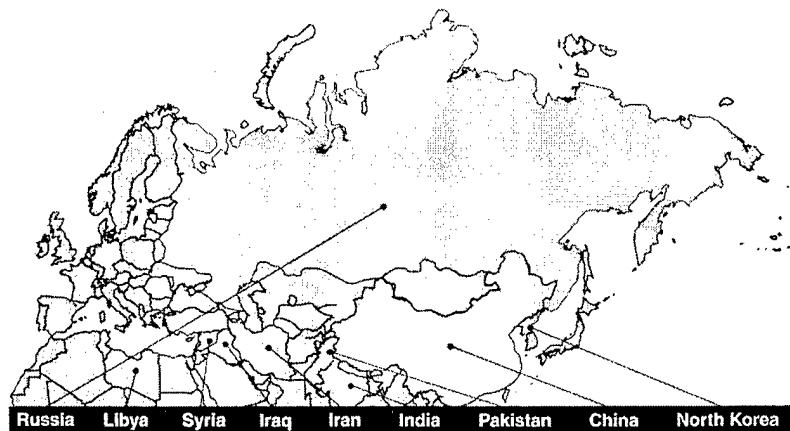
The nation's **security** concerns reflect new, diverse, and diffuse threats of national, economic, and personal dimensions. Less restricted trade, expanding democracy and capitalism, and rapidly developing technology have broadened security concerns and changed the way the United States prepares for conflict. In addition to more conventional military threats, the United States is confronting threats from terrorism; the proliferation of weapons of mass destruction; information warfare; the international drug

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trade; and other more diffuse sources, which are harder to identify, respond to, and contain. Figure 12 shows the countries that possess weapons of mass destruction posing national security concerns to the United States.

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**Figure 12: Countries With Weapons of Mass Destruction Posing National Security Concerns**



Sources: DOD and State Department.

The bombings in New York City in 1993 and in Oklahoma City in 1995 have elevated concerns about the spread of terrorism to the United States. More than 40 federal agencies, offices, and bureaus spend over \$10 billion a year to combat terrorism.

The structure of U.S. armed forces has been reviewed a number of times since the end of the Cold War, resulting in substantial reductions. The Congress has expressed concern that the forces that remain may not be sufficient to implement the national military strategy and may not be sufficiently prepared to respond to the threats of the 21st century. In February 1999, the President proposed that DOD begin the first sustained increase in defense spending in 15 years, calling for additional resources totaling \$112 billion over the next 6 years. In particular, defending the United States against an intercontinental ballistic missile attack from a rogue nation and protecting U.S. and allied deployed forces from theater missile attacks is receiving considerable attention. This year, activities leading to the President's deployment decision on a National Missile Defense system are moving ahead and improvements to key theater

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missile defense systems, such as the Theater High Altitude Area Defense system, are being instituted. The President has proposed about \$24 billion in total funding of national and theater missile defense from 2001 through 2005.

Should disruptions occur, increasing reliance on complex interconnected computer systems essential to public well-being and the economy has created serious new vulnerabilities. Protection of transportation, energy, emergency services, financial services, and communication systems is becoming increasingly important because they rely heavily on information technology. Criminals, terrorists, and others, working anonymously from remote locations and with relatively limited resources, can now use computers to severely disrupt this infrastructure. An example of disruptions that could occur is provided by recent denial-of-service attacks on popular web-sites.

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### **Support the Transition to a More Results-Oriented and Accountable Federal Government**

American citizens are increasingly demanding improved government services and better stewardship of public resources. The federal government is adopting the principles of performance-based management in an effort to address these demands. This approach to managing government systematically integrates thinking about organizational structure; program and service delivery strategies; and the use of technology, reliable financial information, and effective human capital practices into government decisions. Many initiatives now under way across government to improve operations and strengthen accountability are being driven by management reforms statutorily established by the Congress.

The reforms that have been adopted so far have profound implications for what government does, how it is organized, and how it performs its services to the country and its citizens. Consequently, government decisionmakers and managers are adopting new ways of thinking, considering different ways of achieving goals, and using new information to guide decisions. At the same time, with budget surpluses now projected for the coming years, the U.S. government faces a new set of challenges, in both the near and long terms, in making budget decisions.

To support the Congress in its decision-making in this area, GAO will focus significant resources on the following important strategic objectives:

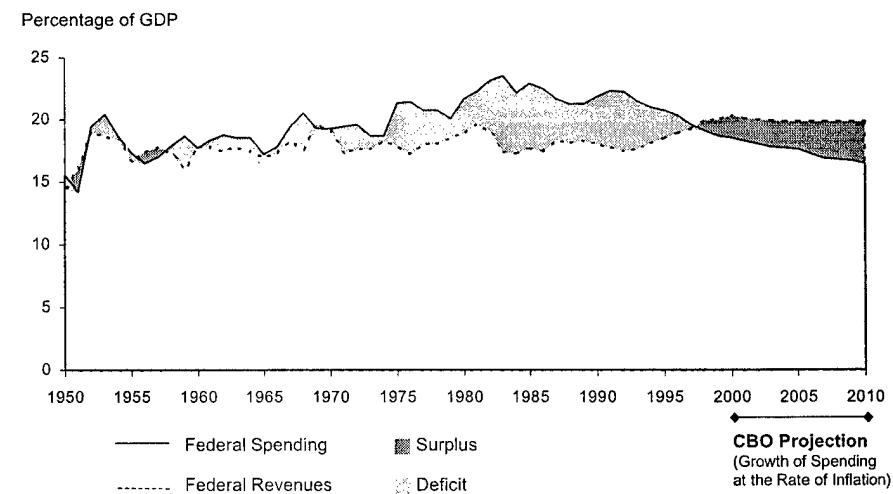
- analyzing the federal government's long-term and near-term fiscal position, outlook, and options;

- examining ways to strengthen approaches for financing the government and determining accountability for the use of taxpayer dollars;
- facilitating governmentwide management and institutional reforms needed to build and sustain high-performing organizations and more effective government; and
- recommending economy, efficiency, and effectiveness improvements in federal agency programs.

A number of important issues influence this goal and its objectives. They include a stable federal budgetary future, technological innovation, and improvements in the operations and service provision of government agencies.

**Future Budget Issues.** Our federal government has gone from budget deficit to surplus as a result of a burgeoning economy and difficult decisions by the Congress and the executive branch to control spending. Compared to the deficits of recent decades, today's surplus represents a historic turnaround, and current projections show surpluses continuing over the 10-year budget window, as figure 13 illustrates.

**Figure 13: Federal Spending and Revenues, 1950-2010**



Note: These projections assume that discretionary spending grows at the rate of inflation after 2000.

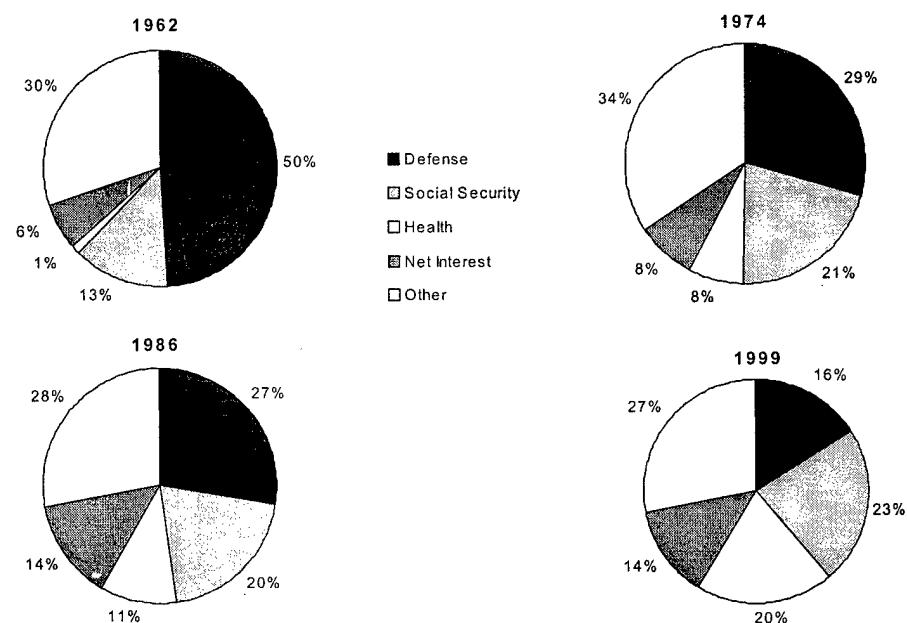
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Source: *Budget of the U.S. Government, Fiscal Year 2001*, Office of Management and Budget and the Congressional Budget Office's January 2000 projections.

This picture of today's fiscal good fortune, however, masks a change in the composition of federal spending during the past few decades. Relative to federal spending subject to annual appropriations—defense and nondefense discretionary spending—the share devoted to federal health programs and Social Security payments has grown steadily over time. Correspondingly, the share available for all other programs, including defense, has decreased, as shown in figure 14.

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**Figure 14: Distribution of Federal Spending, 1962-99**

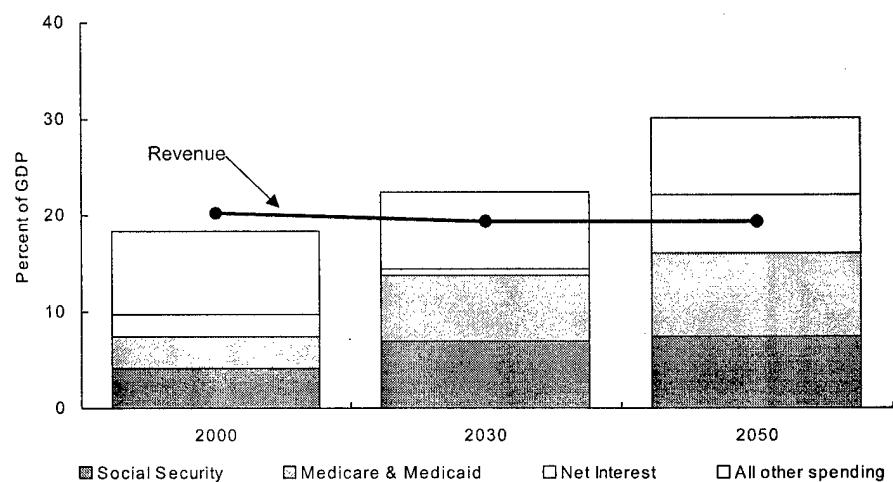


Source: *Budget of the U.S. Government, Fiscal Year 2001*.

Our long-term projections illustrate the consequences for the federal budget, assuming that these trends continue. While we may enjoy annual surpluses for some time, long-term projections show a resumption of a pattern of deficits emerging after the anticipated demographic tidal wave hits. Because of this coming demographic shift, to move into the future without making changes to federal retirement and health programs—Social Security, Medicare, and Medicaid—is to envision a very different role for the federal government. Even assuming, for example, that the Congress and the President adhere to the often-stated goal of saving the Social Security surpluses, our long-term model shows a world by 2030 in

which these three programs alone would require almost three-quarters of total federal revenue. Budgetary flexibility would be drastically constrained, and little room would be left for such spending on programs for national defense, the young, infrastructure, and law enforcement. The government and the taxpayers will increasingly need to distinguish between wants, needs, and affordability of programs and services in the coming years. Figure 15 shows spending as a share of GDP under the "Eliminate Non-Social Security Surpluses" simulation.

**Figure 15: Composition of Spending as a Share of GDP Under "Eliminate Non-Social Security Surpluses" Simulation**



Note: Revenue as a share of GDP falls from its 2000 level of 20.3 percent to slightly below CBO's level due to unspecified permanent policy actions that reduce revenue and increase spending to eliminate the non-Social Security surpluses. The "Eliminate Non-Social Security Surpluses" simulation can only be run through 2068 due to the elimination of the capital stock.

Source: GAO's April 2000 analysis.

In addition there are other looming fiscal pressures, such as:

- clean-up costs from federal operations that yield hazardous wastes, including defense facilities and weapon systems;
- future claims on federal insurance programs by an increasing number of retired federal employees and military personnel; and

- 
- demands for new investment to modernize physical infrastructure, public buildings, transportation systems, and sewage and water treatment plants that are beginning to deteriorate or become obsolete.

Today's surplus represents both opportunity and obligation. While the new surplus projections offer an opportunity to address today's needs, we should not forget our stewardship responsibility to reduce the debt burden and increase the choices we leave to future generations, to provide a strong foundation for future economic growth and to ensure that future commitments are both adequate and affordable. Continued debt reduction and entitlement reforms are both critical to promoting a more sustainable budget and economy for the long term. In the near- and medium-term, surpluses will depend on continued economic growth and fiscal restraint.

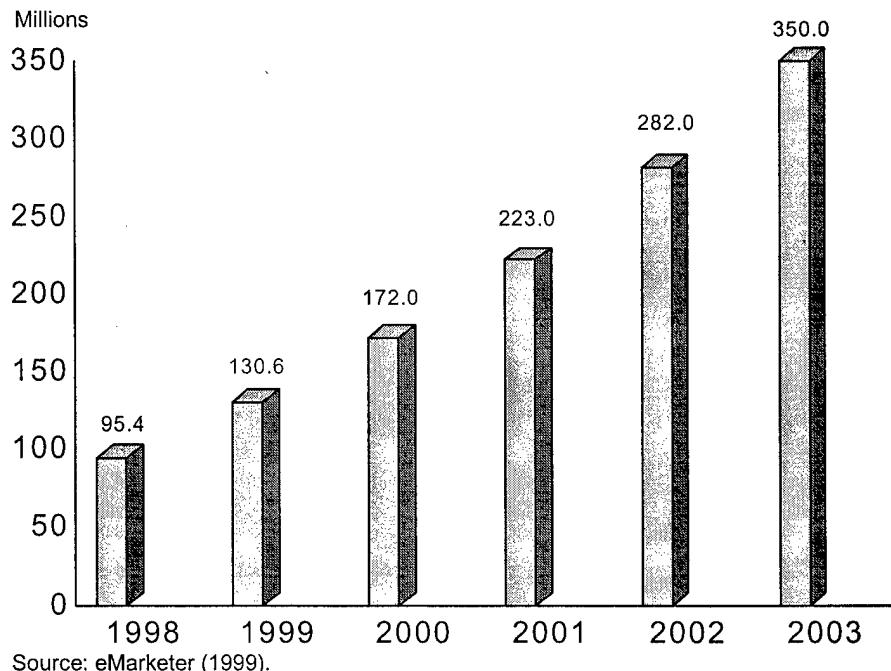
**Technological innovation**, especially in information technology, has enhanced productivity, but also created new vulnerabilities.

Information technology has transformed the ways we communicate, learn, use information, conduct commerce, practice health care, and build and design products. This trend is expected to accelerate, with investment in information technology expected to account for 40 percent of all capital investment in the United States by 2004. Roughly 172 million people around the world will have Internet access in the year 2000, and by 2003 and that number is expected to double. Businesses that produce computers, software, semiconductors, and communications equipment have accounted for over a third of the growth in the U.S. economy since 1992. Government too is being affected, with information technology providing new, more responsive and efficient ways of delivering services and information to citizens, in such areas as tax administration, higher education, transportation safety, and environmental protection.

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**Figure 16: Internet Users Worldwide, 1998-2003**



Source: eMarketer (1999).

The connectivity and interdependence created through information technology also creates vulnerabilities. Computer security risks associated with the widespread use of information create the potential for disruptions to federal agencies and the private sector in aviation, banking, law enforcement, emergency services, and other critical services. The privacy and confidentiality of medical records, credit histories, and other personal data on millions of individuals stored in electronic databases are also at potential risk. Unless appropriately controlled, computerized operations can offer those with criminal or other malicious intentions numerous opportunities for committing fraud, tampering with data, or disrupting vital operations.

Faced with public demand for more **economical, efficient, and effective government**, countries around the world are undertaking major reform initiatives to improve government performance and accountability. These reform efforts being undertaken in major democracies are taking a generally consistent direction, requiring government organizations to focus more on results and less on process.

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In the United States, American citizens are increasingly demanding improved government services and better stewardship of public resources. In an effort to meet these demands, the federal government is adopting the principles of performance-based management. As mentioned earlier, legislation enacted in the 1990s has provided a statutory framework that includes the Government Performance and Results Act of 1993, the Chief Financial Officers (CFO) Act of 1990 and related financial management legislation, and information technology reform legislation, including the Clinger-Cohen Act of 1996 and the Paperwork Reduction Act of 1995.

The impetus for government reform came in part as a reaction to poor performance, continuing disclosures of waste, and chronic budget deficits. However, the fact that the federal budget has turned the corner from deficit to surplus does not reduce the importance of effective and efficient government—nor does it reduce the importance of fiscal discipline. After a decade of focusing on deficit reduction, we know there are pent-up demands for using the projected budget surpluses. The challenge for policymakers will be to meet public expectations of government while maintaining the financial discipline necessary to avoid a return to deficits. Again, there is also the obligation for Americans to distinguish between needs, wants and affordability.

The effective implementation of the statutory framework to improve the performance, management, and accountability of the federal government, although important, is not an end in itself. Rather, the implementation of the framework is the means to an end—improved federal performance through enhanced executive branch and congressional decision-making and oversight. Performance improvements occur only when congressional and executive branch decisionmakers use information resulting from these reforms to help inform decisions and improve the performance and accountability of the federal government.

The government's **human capital management** has emerged as the missing link in the statutory and management framework that the Congress and the executive branch have established to provide for a results-oriented federal government.

Federal employees should be viewed not as costs to be cut, but as assets to be valued. Only when the right employees are on board and provided the training, technology, structure, incentives, and accountability to work effectively is organizational success possible. Modern human capital management principles recognize that employees are a critical asset for

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success, and that an organization's human capital policies and practices must be designed, implemented, and assessed by the standard of how well they support the organization's mission and goals.

As with the private sector, there have been—and will be—many changes in the demographics of the federal workforce, the education and skills required of its workers, and basic employment structures and work arrangements used to accomplish jobs. The federal workforce is aging; the baby boomers, with their valuable skills and experience, are drawing near to retirement; new employees joining the federal workforce today have different employment options and different career expectations than the generation that preceded them. In response to an increasingly competitive job market, federal agencies will need the tools and flexibility to attract, hire, retain, and reward top-flight talent. More and more, the work that federal agencies do requires a knowledge-based workforce that is sophisticated in new technologies, flexible, and open to continuous learning. Agencies' employment structures and working arrangements will also be changing, and the workplace will need to accommodate greater flexibility and uncertainty.

The implications of the downsizing of federal workforce over the past decade are also significant. From fiscal year 1990 through fiscal year 1999, the number of nonpostal civilian federal employees fell from about 2.3 million to about 1.9 million. Moreover, new permanent hires fell from about 118,000 in fiscal year 1990 to a low of about 48,000 in 1994, before beginning a slow rise to about 71,500 in fiscal year 1998.

In cutting back on hiring of new staff in order to reduce the number of employees, agencies also reduced the influx of new people with the new competencies needed to sustain excellence. Also, our reviews have found, for example, that a lack of adequate strategic and workforce planning during the initial rounds of downsizing by some agencies affected their ability to achieve organizational missions. We intend to do more work on the implications of downsizing and of the government's human capital approach generally. Nevertheless, our view today is that the widespread lack of attention to strategic human capital management may be creating a fundamental weakness in federal management, possibly even putting at risk the federal government's ability to efficiently, economically, and effectively deliver products and service to the taxpayers in the future.

**Information Technology**, if leveraged properly, can be an effective tool for high-quality, cost-effective government services. Information technology effectively integrated into strategic plans and performance management practices can lead to increased customer satisfaction,

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government productivity gains, and significant cost reductions—increasingly important attributes to a government with a declining employee base.

Moreover, the government depends heavily on computer systems and networks to implement vital public services supporting national defense, revenue collections, and social benefits. The global expansion of information technology has resulted in significant new information security and privacy threats to our information networks and technology infrastructure.

Such risks are of particular concern at the federal level. Recent audit reports issued by us and by agency inspectors general show that most of the largest federal agencies have significant computer security weaknesses. These weaknesses place critical federal operations, such as national defense, tax collection, law enforcement, air traffic control, and benefit payments, at significant risk of disruption as well as fraud and inappropriate disclosures. In February 1997 and again in January 1999, our reports to the Congress designated information security as a governmentwide high-risk area.

At the same time, the government does not always effectively plan, procure, and implement major technology investments. For years, federal agencies have struggled with delivering promised system capabilities on time and within budget. IRS spent more than \$3 billion in the late 1980s and early 1990s on systems modernization without producing commensurate value. Accordingly, our work over the last decade has focused on strengthening federal agency management of IT investment. We continue to ask whether agencies are spending their technology dollars on the right things (i.e., investments that return business value in excess of costs) and whether they are investing in technology the right way (i.e., employing management and engineering practices that are disciplined and effective). In particular, we developed guidance,<sup>1</sup> based on best practices in the public and private sectors. We have also made hundreds of recommendations to improve management of large-scale IT investments in many major departments and agencies.

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<sup>1</sup>*Assessing Risks and Returns: A Guide for Evaluating Agencies' IT Investment Decision-making* (GAO/AIMD-10.1.13, February 1997).

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## **Maximize the Value of GAO by Being a Model Organization for the Federal Government**

Besides supporting the Congress directly through helping the legislature respond to emerging issues and government challenges, GAO also supports the Congress by maximizing its own value and seeking to be a model agency in the federal government. To successfully carry out its responsibilities to the Congress and the American people, GAO first and foremost must be perceived as credible and must lead by example. In conjunction with the agency's mission and core values, GAO must, among other things, be professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced in all of its audit, investigation, and evaluation work. The internal focus of the fourth goal provides a framework for enhancing GAO's effectiveness and helping to improve performance and accountability throughout the agency.

To ensure its ability to support the Congress in its decision-making, GAO will focus significant resources on the following important strategic objectives:

- implementing a model strategic and annual planning and reporting process,
- aligning human capital policies and practices to support the agency's mission,
- cultivating and fostering effective congressional and agency relations,
- developing efficient and responsive business processes, and
- building an integrated and reliable information technology infrastructure.

As mentioned throughout this testimony, GAO is utilizing its strategic plan to help the Congress, the executive branch, and itself confront the many current and emerging complex issues facing the American people. The plan provides an opportunity to constructively manage a difficult process of change and uncertainty regarding critical national and international issues, now and in the future.

GAO is also utilizing the strategic plan to manage our own transition. The plan not only represents a road map of how GAO will support the Congress in handling issues faced by the country, but it also charts the approach we will use to guide our efforts to strengthen that support and to ensure that GAO has the capacity to serve the Congress effectively in the 21<sup>st</sup> century.

Likewise, to accomplish the objectives for GAO's internal improvements will take the dedication and persistence of all of our talented employees.

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As you know, Mr. Chairman, I am personally committed to the successful implementation of GPRA. I have seen in my public and private sector careers how GPRA's purposes of improved performance and accountability can be achieved through the disciplined application of the goal-setting, planning, performance measurement, and reporting requirements of the act. That's why GAO's strategic plan and associated annual performance plan are consistent with the requirements and best practices of GPRA. We seek, through our strategic and annual planning process, to "lead by example" by being a model for implementation of GPRA. We are not required to comply with GPRA, but we believe that its requirements make good business sense.

As another example of our decision to voluntarily comply with congressionally created management reforms and to "lead by example," GAO issued in March its first-ever accountability report. This report discussed how GAO's work benefited the Congress and the American people. The *Accountability Report* is different from GAO's previous years' annual reports. It reviewed GAO's accomplishments in meeting its mission consistent with applicable professional standards and our core values of accountability, integrity, and reliability. The report also included our financial statements and an unqualified opinion from the agency's independent auditor.

**Realignment.** In order to better support the Congress and maximize the value of our strategic plan, in April I announced a realignment of GAO. This realignment, the first in more than 15 years, will be implemented beginning in October 2000, although the planning and transition activities have already begun. As I've discussed in my testimony, the increasing complexity of issues and the accelerating change in government—major factors in GAO's strategic plan—helped us realize that this realignment was necessary to better position GAO for serving the future needs of the Congress. Our goal is to better serve our client by making GAO more responsive, more flexible – and more focused on our client. GAO must become more capable of handling multiple responsibilities in a rapidly changing environment—all while adhering to our core values and applicable professional standards. We recognize that the government of tomorrow must be leaner, that it must eliminate bureaucracy and multiple management layers, that agencies must respect future fiscal and budgetary realities, and that they must be performance-driven and results-oriented organizations. GAO's realignment is part of our effort to lead the federal government by example—we are certain that this realignment will eliminate management layers, reduce silos, and improve coordination, productivity, and team-building throughout the organization.

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The realignment will ensure a continued ability to provide timely, quality work; will build on efforts to provide broad oversight support; will enhance client communications and feedback; and will maintain a high-level of return on investment. The realignment also gives us a great opportunity to comprehensively focus on how to make our processes work better to serve our staff and our clients, and how we can broaden and retool our products to make them as useful as possible to the Congress in the years ahead. Moreover, the realignment will help us to enhance our long-term capacity by improving recruitment and retention; building a succession plan; focusing on emerging issues; and leveraging technology opportunities for improvements to clients, processes, and employees.

The realignment reduces the number of issue areas from 31 to 11.<sup>2</sup> It eliminates the traditional GAO divisions and strengthens team-based matrix management. We are creating a risk-based management approach that will reduce the number and sequential nature of our product reviews. We will increase empowerment and accountability at the senior executive level. We also will leverage new teams to focus on external issues important to our many stakeholders, and on methodological issues, and strategic studies. And we will create employee pools of generalists to increase our flexibility and enhance development.

At the same time, we have taken a number of other important steps to improve GAO to better serve the Congress. We've created a more effective Engagement Acceptance and Review Meeting process to help senior management direct and oversee work assignments. We've developed an employee feedback system and facilitated an active employee suggestion program that has achieved bottom-line benefits, and we have established a Comptroller General Employee Advisory Council, with which I will meet every quarter to discuss current and emerging issues of mutual interest and concern. And, as I mentioned earlier, we are continuing to consolidate and reduce our field offices to streamline our operations, reduce silos, and improve productivity. Earlier this year, I announced that we would be reducing our field offices from 16 to 11 effective November 2000.

**Human Capital.** As part of the realignment efforts, GAO needs to invest more heavily in its people. Targeted investments need to be made in our

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<sup>2</sup>GAO's 11 teams will be Acquisition and Sourcing Management; Education Workforce and Income Security; Finance and Assurance; Financial Markets and Community Investments; Health Care; Information Technology; International Affairs and Trade; Military Strategy and Readiness; Natural Resources and Environment; Physical Infrastructure; and Tax Administration and Justice.

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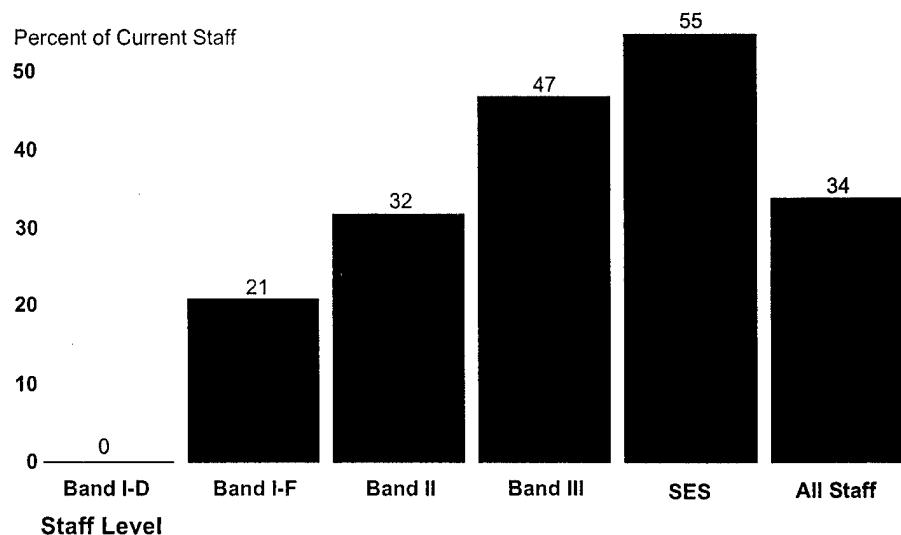
training, performance rewards and incentives, and performance appraisal systems. We have begun efforts to strengthen and redesign our performance appraisal system to better assess employee strengths and weaknesses, identify training needs, reward and recognize exceptional performance, and improve performance at all levels. We have a goal of implementing a new performance appraisal system for our evaluators beginning in fiscal year 2001, but no later than fiscal year 2002.

Efforts also are underway to develop a skills and knowledge inventory system that will be used to identify skill gaps and training and succession planning needs, both at an institutional and individual level, and to staff assignments more effectively. We will continue to correct skill gaps and increase staff productivity and effectiveness through training. To maximize this investment, we are reviewing and updating our training curriculum to address the organizational, behavioral, and technical needs of our staff.

GAO's overall human capital situation also is of growing concern. GAO faces many of the same difficult personnel issues the executive branch is now confronting. Our current human capital profile has succession planning, structural, and skills imbalance problems that we need to address if we are to maintain and build our capacity to support the Congress and achieve the goals of our strategic plan in the 21st century. For example, nearly 34 percent of our evaluator and related staff will be eligible to retire by the end of fiscal year 2004. In addition, about 55 percent of our senior executives and 48 percent of our management evaluators will become eligible to retire by that time. Other critical positions, such as attorneys, criminal investigators, and mission support, are also vulnerable.

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**Figure 17: Current Evaluator and Related Staff Retirement Eligible by End of FY 2004**



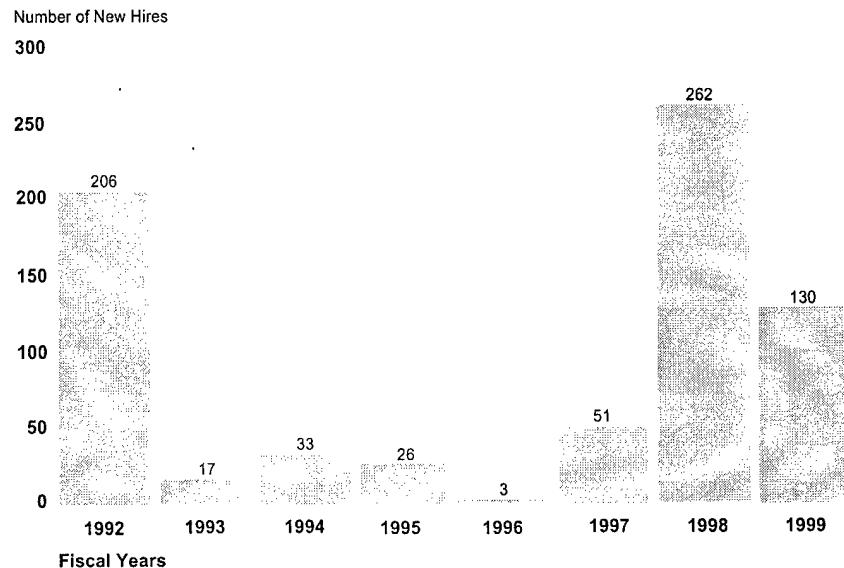
Note: Current staff onboard at end of fiscal year 1999.

Another human capital issue is more structural in terms of staffing. As illustrated in the following graphics, we are sparse at the entry-level—a result of the 5-year hiring freeze we began in 1992—and rather bulky in the middle. We have been more fortunate than many agencies, in that our attrition rate is extremely low. We believe this low rate reflects the quality and dedication of our employees as well as the strength of our recent human capital management improvements. Cultural transitions of major organizations are never easy to accomplish, and I would certainly not claim that it will be easy for GAO. Still, through a combination of employee communications and outreach efforts, most of our staff recognize that change is not only good for GAO at this time, it is imperative for the future.

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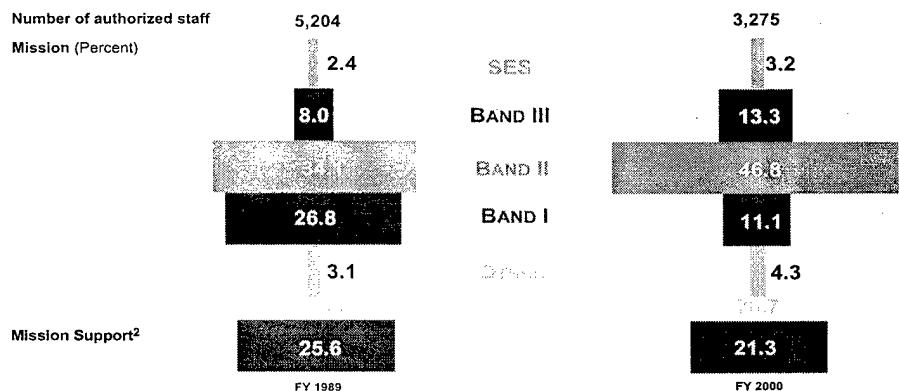
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**Figure 18: GAO's New Hires**



GAO's significant human capital imbalances and risks stem from dramatic budgetary cuts, downsizing, hiring freezes, and other related actions from 1992 through 1997. Over that period, GAO underwent budgetary cuts totaling 33 percent in constant fiscal year 1992 dollars. In order to achieve these budgetary reductions, GAO staff was reduced by 39 percent. These actions have had a considerable impact on GAO's human capital structure. Figure 19 shows GAO's human capital profile as of fiscal years 1989 and 2000.

**Figure 19: GAO's Human Capital Profile**



GAO has turned to contracted resources to achieve its mission and mission-support requirements. Contract funding in inflation adjusted dollars has increased from \$13.1 million in 1981 to \$29.2 million in 1999.

Clearly, GAO needs assistance to meet its looming human capital challenges. The agency has made considerable progress in confronting its problems, but more needs to be done. In order to effect the realignment, strengthen our human capital profile, and position GAO to fulfill its strategic plan and support the future needs of the Congress, GAO has requested legislation from the Congress to

- give GAO the flexibility to appoint scientific, technical, or professional staff to senior-level positions with the same pay, rights, and other attributes as members of the Senior Executive Service;
- authorize voluntary early retirement for selected individual employees for the purpose of realigning the agency's workforce;
- authorize separation payments for realignment purposes; and
- authorize the Comptroller General to release officers and employees in RIFs which are carried out for purposes of downsizing, realignment or correcting skills imbalances.

This legislation would be a supplement to administrative actions that we have taken and will be taking in the near future, and it is based on a sound business case focused on enabling us to better support Congress in the future. The legislation would be used to realign GAO, not to downsize it,

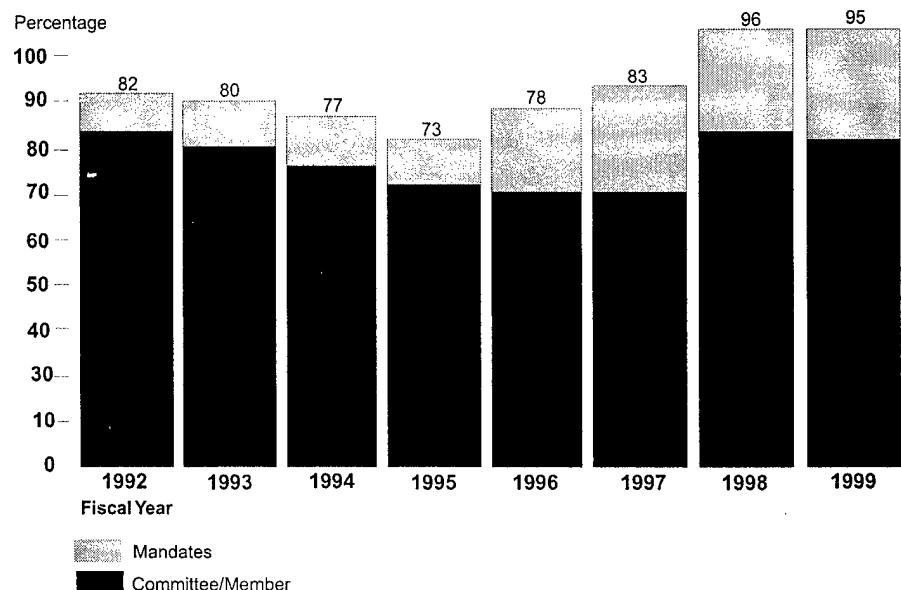
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and would only be for GAO—the legislation would have no effect on the executive branch agencies. It also would provide relief from applying certain reduction-in-force (RIF) provisions that could result in an even more unbalanced workforce than exists today and a consequent detrimental impact on our ability to serve the Congress. RIF's would be used only as a last resort. I want to stress that our proposal would maintain the statutory preference for veterans and that we have no intention of de-emphasizing our attempts to attain and maintain a high-quality and diverse workforce. Also, to provide us greater ability to attract and retain technical talent, the legislation would provide authority comparable to that of the executive branch to compensate selected scientific and technical staff at senior-executive pay levels. We would use such authority, if granted, sparingly to address specific targeted needs, such as information technology specialists and actuaries.

**Client Focus.** The Congress continues to turn to GAO for assistance on significant issues facing the nation—in fact, we face record demands for our services. As illustrated in the following graphic, congressional requests and mandates for GAO services have increased in recent years. From a long-term historical viewpoint, requests for GAO's services have never been higher, and we anticipate that this historic growth will continue as the Congress grapples with increasingly complex and contentious issues requiring greater contextual sophistication. GAO, perhaps more than any other organization, is positioned through its broad-based skills, knowledge, and expertise to support the Congress in meeting responsibilities that will only become more difficult as the 21<sup>st</sup> century evolves. Figure 20 shows congressional requests as a percentage of GAO's work from fiscal year 1992 through fiscal year 1999.

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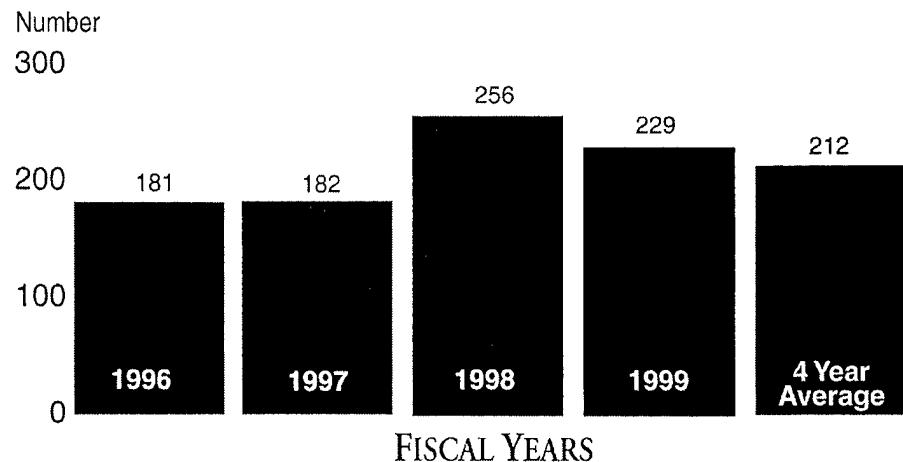
**Figure 20: Work Conducted for the Congress, Fiscal Years 1992 - 1999**



During fiscal year 1999, we were called upon to testify 229 times before 93 congressional committees or subcommittees as shown in Figure 21 below. Examples of important testimonies that helped the Congress in its oversight include our performance accountability and high-risk series, which depict the government's major management challenges and program risks; Social Security reform proposals; financial and operational aspects of the International Monetary Fund; DOD's anthrax vaccination program, and Medicare reform.

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**Figure 21: Testimonies**



GAO has recently strengthened its client outreach program to assist both GAO and the Congress in understanding how best to meet congressional needs. We plan to meet regularly with the Senate and House leadership, all Committee Chairs and Ranking Minority Members, and members of our appropriations and oversight committees to obtain feedback on our performance and to help guide work plans in the context of the strategic plan. Our realignment is a critical component in improving our communications and outreach with the Congress and ensuring that we continue to maintain and foster ways to help the Congress meet its responsibilities.

GAO has expanded its electronic link to Congress, and we are now providing a list of active assignments. We plan to provide other products and information through this link in the future. Through consultation with key congressional leaders, members, and staff, we also have developed a set of clearly defined, well documented, and transparent protocols, intended to be consistently applied in setting priorities, allocating resources, recognizing existing commitments, and serving the Congress. These protocols will help GAO to better serve the Congress and improve customer satisfaction, to close "expectation gaps" between the Congress and GAO wherever they exist, to ensure equitable treatment of all requesters consistent with the protocols, and to maintain and strengthen GAO's performance and accountability. We began implementing these protocols in January of this year and will test them until August 2000. We will finalize them by October 2000.

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GAO is also interested in fostering constructive engagement with executive branch stakeholders and enhancing the partnership between the Congress and GAO by strengthening oversight in order to improve the performance and accountability of government. For instance, it is important to work closely with agencies—while maintaining our independence—and to utilize our skills, knowledge, and experience in working cooperatively to improve government operations. For example, we have successfully worked with a variety of agencies on Y2K and with IRS to face management problems and improve government operations. I am convinced there are additional opportunities for developing constructive engagements while maintaining the integrity of our principal mission as an accountability organization.

Moreover, the pervasive changes confronting the Congress and the nation present an opportunity for the Congress to reconsider the approach it takes to oversight responsibilities. Persistent attention, new models of performance, and different oversight structures and processes may be necessary to achieve this objective.

GAO is uniquely positioned to help the Congress examine what government does and how government does business—by attacking known areas of fraud, waste, abuse, and mismanagement; reassessing how government provides services; improving the performance and accountability of government agencies; and preparing for the government's long-term challenges. GAO can provide support to the Congress for holding oversight hearings on major agencies and programs on an annual basis. Based on its insight and knowledge of government accountability, GAO can provide effectively packaged information about agencies and programs from a variety of audit and program sources to support the oversight work of congressional committees, including the information resulting from the management reforms in the 1990s. GAO resources can also be leveraged through the strategic plan, support of task forces and other congressional oversight approaches, increased communication with committees, and the selective use of detailees.

**Information Technology.** GAO also seeks to lead the government in the strategic management and security of effective technology utilization. Over the years, we have made important strides in—and realized efficiencies by—introducing technology into the organization. Most recently, we have successfully managed the Y2K transition. However, we need to maintain and enhance our ability to take greater advantage of modern technology and achieve an integrated infrastructure that supports our client service, strategic planning, human capital, and business process goals and objectives. To this end we are:

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- developing a long-term comprehensive plan for an integrated information technology approach;
  - developing and implementing a short-term, cost-effective approach to quickly begin to satisfy GAO's information needs;
  - establishing performance and cost metrics addressing the quality and value of information technology services;
  - ensuring the availability of required information technology skills,
  - replacing obsolete hardware and software agency-wide to help ensure the efficiency and effectiveness in our operations and enhance our productivity, and
  - stabilizing and improving the responsiveness of our network.

It is clear that additional investments will be necessary in the coming years to increase our enabling technology and knowledge management efforts to meet the challenges of the future and effectively support Congress.

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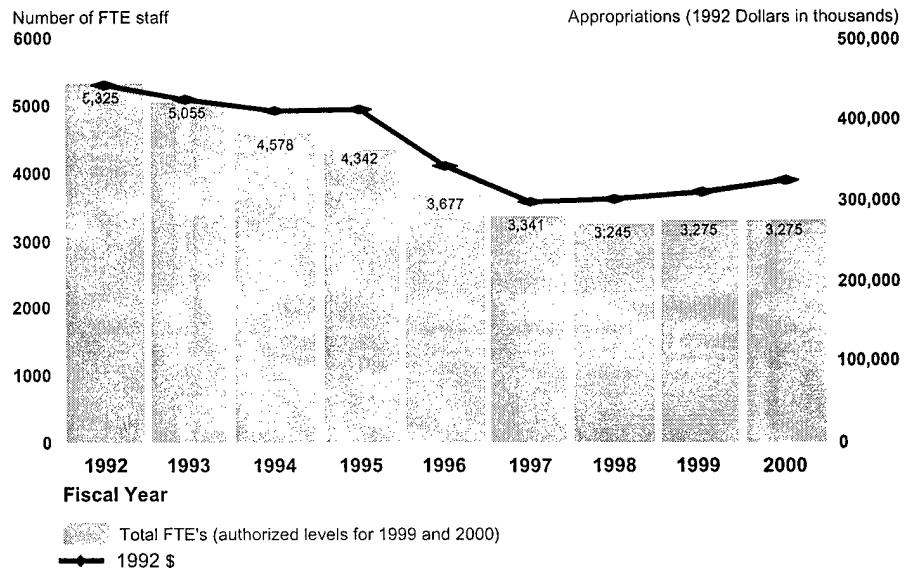
## GAO Initiatives and Challenges

Mr. Chairman, for GAO to continue maintaining the strength of its mission, we are committed to find new ways to streamline our operations while building on our responsiveness and flexibility. I am convinced that the Strategic Plan we have articulated with the support of the Congress will provide a strong framework for improving government and meeting the nation's challenges in the years ahead.

For GAO to achieve its mission and effectively support Congress in the future, it will be important for us to have the support of the Congress. As I have mentioned, demand for our work is essentially at an all time high, especially with regard to mandates and requests from Congress. This change in the composition of our work has left GAO less flexibility to pursue R&D work—a component of our services to Congress that we believe is vital to ensuring that we can help Congress recognize important and emerging issues before they reach a crisis stage. Clearly, that was the case with our work in the Y2K area and I have no doubt that there are similar issues out there that we must be sure to identify and examine before they become major problems. But this becomes harder and harder for GAO to do as the demands for our work increase—requests and mandates already represent 95 percent of our total workload.

It is also extremely important that we maintain and strengthen our capacity to effectively serve the Congress and meet the growing demand level in the future. This will require a more stable budgetary and personnel environment than has been the case historically. Figure 22 clearly reflects a resource environment that has changed dramatically in the last decade:

**Figure 22: GAO Appropriations and Full-Time Equivalent Staff Levels**



In an era of shrinking government capacity but expanding demands, vigorous congressional oversight and growing requests requires a strong GAO. It will certainly require a more stable GAO, in which budget and personnel levels remain consistent from year to year and reflect a work plan built from the strategic plan. A stable funding level not only supports GAO's strong return on investment of \$57 for every \$1 spent, it creates the environment necessary to recruit, retain, compensate, train and motivate a strong and capable workforce. It is increasingly clear that the continued decline in the staff levels of the Congress will also necessitate that GAO retain sufficient resources to ensure effective partnering with the Congress as well as an institutional memory about government programs and operations.

Without the broad-based assistance and experience of GAO to support the Congress, the Congress would clearly lose opportunities for obtaining an array of options, undertaking informed decision-making, and fully

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pursuing oversight—all important elements of the Congress' constitutional responsibilities. Without stable funding and personnel levels, it will be extremely difficult for GAO engage in the types of partnering so critical to the future oversight work needed to strengthen government's performance and accountability. GAO would also have difficulty in taking on some of the expanded roles that Congress has asked of the agency in recent years, such as assisting on task forces and commissions without any commensurate adjustment for resources. As I've discussed in this testimony, without some immediate stability, GAO faces many of the same problems as other federal agencies in being able to effectively deliver services now and in the future. Right now, considerable differences still exist with respect to our appropriations levels in the House and the Senate—stable funding for GAO next year is still not assured.

GAO needs funding to support the realignment so critical to our growing mission. GAO has requested funding to improve compensation comparability with the executive branch, strengthen performance reward and recognition programs, reengineer our performance appraisal system, and increase our staff productivity through training and development as well as new information technology resources.

At the same time, flexibility may be just as important as resources. The human capital legislation is one example. Another example is the mandates issue. It is becoming difficult to do R&D work, like Y2K, as I mentioned earlier. Without GAO's ability to pursue research and development issues, many other consequential issues could go unrecognized and ultimately create fundamental and serious problems for the Congress and the American people. We must have a reasonable amount of flexibility to address emerging challenges before they reach crisis proportions. Thus, I would urge the Congress to not lose sight of the important balance between mandates, requests, and research and development in the mix of GAO's work supporting the Congress.

In addition to the legislative support I've already discussed, GAO will be assessing whether it may need additional authority from the Congress to obtain certain types of records for conducting our work. As the budgets, functions, and points of service of many government programs devolve to state and local government, private entities and non-profit organizations, and other third parties, it may become harder for GAO to obtain the records it needs to complete audits and evaluations. For GAO to effectively do its job and obtain all the facts, we must have unfettered access to records no matter where the federal dollar goes and services are delivered.

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As I've stressed, we are making major changes in how GAO will face the future, both to support Congress and to lead the government in strategic planning, human capital management, information technology, and other areas. That is why GAO's human capital legislation is so important. The legislation is absolutely critical to an evolving GAO that is realigning toward a 21<sup>st</sup> century Strategic Plan and more modern human capital approaches to meet its mission.

Moreover, it will be important for Congress to consider issues that will help GAO to recruit, retain and motivate an effective workforce. Clearly, it is important for GAO to continue to attract bright, able staff, which is increasingly difficult given the excellent economy and private sector competition. For GAO—and for most of the federal government—to compete with the private sector, we must be able to have a more flexible compensation system that can bring people into government employment at attractive pay levels. This makes it incumbent on the government to create incentives to recruit new employees and retain older employees. Congress should consider establishing incentives such as debt relief for school loans for new hires, an ability for staff that is eligible to retire to retreat slowly into retirement through part time work, while obtaining a portion of their pension, and a provision that allows federal employees—like private sector employees—to keep frequent flier miles. Many commercial firms, in recognition of the physical impact and disruption of family life that results from frequent travel, allow their employees to keep frequent flyer awards. The federal government has always considered frequent flyer awards to be property of the government, and sought to reduce travel costs by requiring their use only for official travel. Six years ago the Congress enacted this requirement into law, and required the General Services Administration to promote the use of frequent flyer programs. It is time to examine whether the financial benefits of trying to make use of frequent flyer benefits would be outweighed by the recruiting and retention benefits of allowing personal use of those benefits.

Finally, one area I believe the Congress needs to begin thinking about is the process for appointment of the Deputy Comptroller General. The current process was established in 1982. The governing statute provides that a committee consisting of the Comptroller General, the Speaker of the House and President Pro Tempore of the Senate, the Majority and Minority leaders, and the Chairmen and Ranking Minority Members of the Senate Governmental Affairs and House Government Reform Committees recommend an individual to the President for appointment. This process has never worked and it is too complicated. There has been no Deputy Comptroller General since Bob Keller passed away over two decades ago. There are a number of possible alternatives to the current process that

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would avoid conflicts between the Congress and the administration. For example, I could appoint a deputy with the approval of at least three members of a panel consisting of the Chairmen and Ranking Minority Members of our oversight committees. The Director of the Congressional Budget Office appoints his deputy, whose term is tied to the Director's just as the Deputy Comptroller General's term is tied to the Comptroller General's. Let me also note that Gene L. Dodaro, GAO's Chief Operating Officer, would make a terrific Deputy Comptroller General.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions that you or the other Subcommittee members have.

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